

36142

Annual Report and Accounts

1997



MEDICAL PROTECTION SOCIETY

Chairman's Statement

The Society has had another successful year and I should like to extend the thanks of Council to all the Society's staff, whose hard work, enthusiasm and efficiency have made this possible.

The efficient and prudent running of the Society is critical if we are to minimise increases in subscriptions. As you will be aware the Society is a non-profit-making mutual and your subscriptions are used solely for the running of the organisation so that we can indemnify members and provide them with advice and legal representation. Against a background of business efficiency Council is determined that our traditional ethos of 'doctors for doctors' and 'dentists for dentists' should be maintained and if possible strengthened. We are always grateful for your comments and advice about this. As stated in the accompanying *1997 Review* this is your Society and you have a say.

This year sees the end of an era at the MPS. Dr Roy Palmer, Secretary and Medical Director, and Mr David Phillips, Dental Director, have decided to retire from their posts in June, though I am glad to say that their services will still be available to MPS for some time to come. Dr Palmer will have worked for the Society for 25 years, eight of them as Medical Director and Secretary. Mr Phillips has been with the Society since 1981, and has been Dental Director since 1989. It would be hard to exaggerate their contributions. They are leaders of their profession and are held in the highest regard, at home and internationally, wherever the Society is known. My personal thanks and best wishes together with those of Council go to both of them.

In addition, three senior and experienced members of Council step down at the Annual General Meeting in May in accordance with the Society's retirement policy for Council members. Dr Tom Taylor has been on Council

and Cases Committee for many years and latterly has been vice-chairman of both. He has also served on several of the Society's other committees. He will be remembered for his extensive knowledge of the Society and its workings and for strongly held views, firmly expressed – always with the wellbeing of the Society and its members in mind.

Professor John Bonnar has similarly made an enormous contribution to the Society through Council and Cases Committee, despite the distance from Dublin. In addition, he has chaired our Republic of Ireland Advisory Board and Council is delighted that he will continue to represent the Society in the Republic as one of our international vice-presidents. Mr Alan Tyrrell, QC and former MEP, has brought a different and most valuable perspective to Council's discussions. We shall greatly miss his closely reasoned and lucidly expressed advice. Our thanks and best wishes go to these three colleagues who have served the Society so well for so long. Discussions are in progress about the optimum size and composition of Council and it has been decided not to fill all the vacancies until these are concluded.

As you will see in the Chief Executive's statement the Society has withdrawn from several of its Australian operations. I should like to thank our colleagues in our Australian subsidiaries, MPS New South Wales and the Medical Indemnity Protection Society of Victoria, as well as in the schemes of co-operation in Queensland, South Australia and Tasmania for all their efforts in the past and to wish them well in their new enterprises.

J P Miller
Chairman of the Council

Chief Executive's Report

The Society has had another active and successful year and once again there has been a material improvement in our financial position.

This report will concentrate on financial and business matters whilst the new *1997 Review* will cover those other aspects of the Society's activities which we believe will be of particular interest to our members.

The basis on which our accounts are drawn up has been changed in certain important respects. The key changes can be summarised as follows:

- a) The estimated net value of reported claims (including defence costs) has hitherto been shown only in a note to the accounts as a contingent liability. Since the Society has accepted responsibility for these claims, and given that the Society sets its subscriptions each year at a level designed to build up funds to meet these claims when they are settled, they are more appropriately treated as obligations and are now included in the balance sheet as a 'Provision for liabilities and charges'. The movement from year to year on this estimate is included in claims costs in the income and expenditure account.
- b) The estimates of reported claims were increased last year to reflect ultimate settlement values discounted by expected investment returns to present day values. We have now also included a provision for future handling costs in respect of reported claims.
- c) The provision which we make for unearned subscriptions, that is the proportion of subscriptions due and payable during the year which relates to a period beyond the balance sheet date, has been changed to a pure time-apportionment basis. Previously, the method also took account of the pattern of expenditure, which we consider is no longer appropriate following the change in (a).

In order to provide a valid comparison with the previous year, all 1996 figures have been restated to reflect the same accounting treatment.

After making these additional and conservative provisions, the balance sheet shows funds available to meet future liabilities and charges of £111.9 million (up from £67.4 million in 1996 as restated). As mentioned in last year's Report, these funds are required to meet claims that may arise from the actions of members prior to 31 December 1997, of which the Society presently has no knowledge. These potential claims (commonly referred to as IBNR) will, to the extent to which Council exercises its discretion, become the Society's responsibility under the 'occurrence' or 'claims-incurred' basis of cover that the Society provides.

Although these potential claims are not yet liabilities as such, it is vital that the Society continues, through prudent subscription setting and careful control of all outgoings, to build up funds to ensure that they can be funded without recourse to our members.

The accounts for the year are also substantially affected by discontinued operations in Australia as explained below.

During the year we reached agreement for our operations in Queensland and New South Wales (including the Australian Capital Territory) to be taken into an independent Australian organisation, United Medical Protection Limited. We are undertaking no new business in those States after 30 June 1997 and we have paid a negotiated sum to be relieved of all existing and future liabilities.

A similar arrangement was also concluded with the Medical Defence Association of South Australia with effect from 30 June 1997 although in that case the Society has not paid over any money but is running off reported claims up to a fixed ceiling.

In Victoria we have recently reached agreement with the Medical Defence Association of Victoria (MDAV) whereby we are undertaking no new business in that State from 1 January 1998 and, in return for a negotiated sum, are relieved of all existing liabilities at that date with the exception of those arising from incidents before 1 July 1988 (being the date from which our earlier scheme of co-operation with MDAV was terminated).

Lastly in Tasmania, by virtue of a new arrangement with the Medical Protection Society of Tasmania, the Society retains liability for all claims arising from incidents before 1 January 1998 (for which adequate reserves are held) but is undertaking no new business in Tasmania after that date.

All of these arrangements have contributed to the rationalisation of medical indemnity in Australia which is sorely needed to meet the rising levels of personal injury litigation in that country. Circumstances are somewhat different in each State and hence it has been necessary to reach different arrangements with each State organisation.

The results for the year of the Society's discontinued operations in these States have been shown separately in the income and expenditure account, as has the cost of discontinuance. These new arrangements do, of course, mean some reduction in overall numbers of members and in subscription income but these factors are outweighed by reductions in outgoings, by the relief of major liabilities and by the insulation of Society funds from the escalation of awards for personal injury in Australia. The Council is satisfied that each individual arrangement is beneficial and that in aggregate they have contributed significantly to the Society's strengthened financial position.

The Society's contract with the NHS Litigation Authority to manage the Clinical Negligence Scheme for Trusts expired on 31 March 1998. All claims files have been handed back to the NHS Litigation Authority who in future will manage them in-house.

The continuing favourable investment climate has also assisted the Society's funds in 1997 and we have enjoyed a total investment return, comprising income and capital appreciation, of about 16 per cent during the year. Our present investment strategy calls for a portfolio comprising approximately two thirds equities and one third index linked gilts with some international elements reflecting the spread of our liabilities, this allocation strategy is currently under review.

In October we moved our London office from Hallam Street, which had been the Society's headquarters since 1959, to Cavendish Square. Our new modern office provides a more convenient and amenable working environment on a single floor and should be adequate for our needs for many years to come.

Finally, thanks are due to our staff in London and Leeds – as well as those in our Melbourne office which is now being closed – for their work during the year and for their efforts to achieve continuing improvements in our service through the Service Excellence programme.

D J Youngman
Chief Executive

Members of Council

President

Sir John Batten
KCVO MD FRCP (*Retired 21 May 1997*)

Sir Leslie Turnberg
Kt MD FRCP (*Elected 21 May 1997*)

Chairman of the Council

J Paul Miller
MA MSc DPhil FRCP

Chief Executive

D John Youngman
BA

Vice-Presidents

Australia

Desmond C Hoffman
MB BS FRACS (*Retired 11 March 1998*)

C John Quayle
MB BS FRCS FRACS (*Retired 11 March 1998*)

R William L Turner
LLB FRCS FRACS FA ORTH A (*Retired 11 March 1998*)

Professor Ross W Webster
MB BS FRACP FRACGP FAFPHM

Israel

Professor Shmuel Penchas
MD MSc DIC

New Zealand

Professor Sir John Scott
KBE BMedSc MD FRCP FRACP FRSNZ

West Indies

Raymond J Massay
BSc MB BS MRCP(UK)

Members of the Council

John J Bradley
MB FRCP FRCPsych DPM (*Retired 21 May 1997*)

Howard Baderman
OBE JP BSc MB BS FRCP FFAEM (*Retired 21 May 1997*)

Meredyth C Bell
BDS DGDRC RCS(UK)

Professor John Bonnar
MA MD FRCOG

The Lord Colwyn
CBE BDS LDSRCS

G Alan Crouch
MB ChB FRCGP DOBstRCOG (*Appointed 21 May 1997*)

* Martin H T Gairdner
BA FCA

Robin Gray
FCA (*Retired 21 May 1997*)

Professor Jack D Hardcastle
MA MChir FRCS FRCP

Maurice J Healy
MB BS MRCGP DOBstRCOG (*Retired 21 May 1997*)

Professor F D Richard Hobbs
MB ChB FRCGP

Mary King
MB BCh BAO FRCPI (*Appointed 21 May 1997*)

* J Paul Miller
MA MSc DPhil FRCP *Chairman*

* Keith F Parsons
MB ChB FRCSEd FRCS

Susan M Sellers
MD FRCOG (*Appointed 21 May 1997*)

Robert C Seward
MA Barrister

* Thomas H Taylor
MB BS FRCA

Alan R Tyrrell
QC FCIArb LLB

D John Youngman
BA *Chief Executive (ex officio)*

* Members of the Audit Committee

Report of the Council

The Council, which for the purposes of the Companies Acts, is the Board of Directors, presents its report and accounts for the year ended 31 December 1997.

Principal activity

The Society is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners. It is a non-profit-making company limited by guarantee and all income and property must be applied solely towards its objects as defined by the Society's Memorandum of Association. Members are not entitled to dividends or other distributions, and the balance on the income and expenditure account is retained by the Society to set against future liabilities.

One of the objects of the Society is to grant indemnity to members in respect of claims and demands which may result in the payment of costs and damages. The Articles of Association set down in paragraph 28 that *'the grant of indemnity shall be entirely in the discretion of the Council who shall have power to impose such terms and conditions on the grant of any indemnity as it thinks fit and may in its absolute discretion limit or restrict such indemnity or decline altogether to grant the same'*.

Review of the business

The results for the year are stated in detail on pages 7 to 20. The review of the business appears in the Chief Executive's report on pages 2 to 3.

Members of the Council

The names of the members of the Council of the Society who served during the year are set out on page 4.

Cadbury Code of Practice

Although it is only listed companies which are required to comply with the Cadbury Code of

Practice on Corporate Governance, the Society complies with the principles of the code.

Auditors

Robson Rhodes have expressed their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

Statement of the Council's responsibility for the financial statements

Company Law requires the Council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the surplus or deficit of the Society for that period. In preparing those financial statements, the Council has:

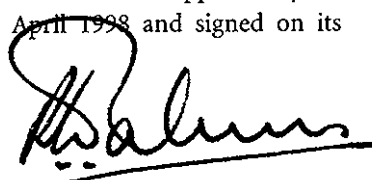
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards; and
- prepared the financial statements on the going concern basis.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable it to ensure that the financial statements comply with the Companies Act 1985. It is also responsible for safeguarding the assets of the Society and hence for taking steps for the prevention and detection of fraud and other irregularities.

Approval

The report of the Council was approved by the Council on 8 April 1998 and signed on its behalf by;

R N Palmer
Secretary



33 Cavendish Square, London, W1M 0PS

Report of the Auditors

Report of the auditors to the members of the Medical Protection Society

We have audited the financial statements on pages 7 to 20, which have been prepared on the basis of the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

As described on page 5, the Council is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Society and the Group at 31 December 1997 and of the net contribution for the year available to meet future liabilities and charges of the Group for the year then ended and have been prepared in accordance with the Companies Act 1985.


Robson Rhodes

Chartered Accountants

Registered Auditor

40 Great George Street, Leeds, LS1 3DQ

8 April 1998

Consolidated Income and Expenditure Account

Year ended 31 December 1997

	Notes	Continuing Operations £'000	Discontinued Operations £'000	1997 £'000	Restated 1996 £'000
Income					
Members' subscriptions and other income		86,389	10,191	96,580	86,667
Expenditure					
Claims costs and associated legal costs (including costs of insurance)	17	43,937	8,142	52,079	53,747 ^A
Insurance recoveries		(1,336)	(170)	(1,506)	(598)
Advisory costs and associated legal costs	5	8,263	894	9,157	10,135
Administration expenses	5	6,412	43	6,455	7,469
Loss/(profit) on exchange movements		227	(886)	(659)	949
		57,503	8,023	65,526	71,702
Excess of income over expenditure		28,886	2,168	31,054	14,965
Cost of discontinued operations	4			(16,607)	—
Income from investments	6			9,072	7,801
Realised gains from disposal of investments	2(g)			2,128	349
Contribution from ordinary activities before taxation				25,647	23,115
Tax on income and realised gains from investments	7			(5,019)	(2,348)
Net contribution for the year available to meet future liabilities and charges	19			20,628	20,767

Statement of Total Recognised Gains and Losses

	1997 £'000	Restated 1996 £'000
Net contribution for the financial year	20,628	20,767
Surplus on revaluation of investments	23,820	13,624
Reduction on revaluation of fixed assets	–	(1,700)
Total recognised gains	44,448	32,691
Prior year adjustment (as explained in note 3)	(167,432)	–
Total recognised (losses)/gains since the last annual report	(122,984)	32,691

Note of Historical Cost Income and Expenditure

	1997 £'000	Restated 1996 £'000
Reported net contribution before taxation	25,647	23,115
Realisation of valuation gains of previous years	10,305	1,254
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	–	94
Historical cost net contribution before taxation	35,952	24,463
Historical cost net contribution retained after taxation	30,933	22,115

No provision has been made for tax of approximately £13m (1996: £10.5m), which would arise should the Society's investments be sold at the market values at which they are included in the balance sheet.

Consolidated and Company Balance Sheets

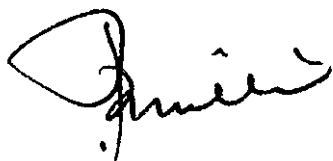
At 31 December 1997

	Notes	1997 Group £'000	Restated 1996 Group £'000	1997 Company £'000	Restated 1996 Company £'000
Fixed assets					
Tangible assets	11	6,096	7,217	6,037	7,102
Investments	12	236,531	212,110	20,052	20,052
		242,627	219,327	26,089	27,154
Current assets					
Debtors	14	2,022	1,869	144,654	151,946
Bank deposit accounts		27,849	7,101	27,827	7,080
Cash at bank and in hand		1,718	2,091	1,659	1,987
		31,589	11,061	174,140	161,013
Creditors: amounts falling due within one year	15	(49,130)	(32,039)	(45,945)	(31,168)
Net current (liabilities)/assets		(17,541)	(20,978)	128,195	129,845
Total assets less current liabilities		225,086	198,349	154,284	156,999
Creditors: amounts falling due after more than one year	16	(5,365)	—	(5,365)	—
Provision for liabilities and charges	17	(107,838)	(130,914)	(107,838)	(130,914)
Net assets		111,883	67,435	41,081	26,085
Accumulated funds					
Income and expenditure	18	56,393	25,460	41,081	25,154
Revaluation reserve		55,490	41,975	—	931
Funds available to meet future liabilities and charges	19	111,883	67,435	41,081	26,085

J P Miller

Chairman of the Council

8 April 1998



Consolidated Cash Flow Statement

Year ended 31 December 1997

	Notes	1997 £'000	Restated 1996 £'000
Cash flow from operating activities	20	28,065	27,446
Returns on investments	21	8,658	7,790
Tax		(2,578)	(1,754)
Net cash outflow from disposal of operations		(16,071)	—
Capital expenditure and financial investment	22	8,329	(41,479)
Net cash (outflow)/inflow from management of liquid resources (comprising bank deposits and investment deposits)		(26,776)	3,436
Decrease in cash in the period		(373)	(4,561)

Analysis of changes in net funds	At 1/1/1997 £'000	Cash Flow £'000	At 31/12/1997 £'000
Cash at bank and in hand	2,091	(373)	1,718
Bank deposit accounts	7,101	20,748	27,849
Cash with investment managers	2,010	6,028	8,038
Net funds	11,202	26,403	37,605

Reconciliation of net cash flow to movement in net liquid funds	£'000
Decrease in cash	(373)
Cash flow from increase in net liquid resources	26,776
	26,403
Net funds at 1 January 1997	11,202
Net funds at 31 December 1997	37,605

Notes to the accounts

1) Basis of preparation of the financial statements

The financial statements are prepared in accordance with applicable accounting standards and the constitution of the Society.

2) Accounting policies

a) Convention

The financial statements include investments at valuation but in all other respects have been prepared in accordance with the historical cost convention. The principal accounting policies adopted by the Society within that convention are set out below.

b) Consolidation

The Group financial statements comprise a consolidation of the financial statements of the parent company (the 'Company') and all its trading subsidiary undertakings (together, the 'Group'). In accordance with the exemptions given by Section 230 of the Companies Act 1985, the company does not publish its own income and expenditure account.

c) Subscriptions

Subscription income comprises amounts due during the year, apportioned to accounting periods on a time basis. This is a change in accounting policy, which is explained in note 3. No geographical analysis of subscription income is shown because, in the opinion of Council, it is not in the interests of the Group so to do.

d) Depreciation

Depreciation is provided in equal annual instalments over the anticipated useful lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum
Leasehold properties	over life of leases
Furniture and fittings	5% per annum
Office equipment	15% per annum
Motor vehicles	25% per annum
Computers	20% per annum

e) Translation of foreign currency transactions

Debts paid and subscriptions received in foreign currencies are translated to their sterling equivalent at the date of payment or receipt. Current assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31 December or at a rate fixed in advance by way of a forward exchange contract. Any gain or loss is taken to the income and expenditure account.

f) Dividends and interest receivable

Dividends are brought into account when received. Interest receivable is brought into account on an accruals basis.

g) Investments

Listed investments (which includes cash held by the investment managers awaiting investment) are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. In accordance with Financial Reporting Standard 3, on disposal, the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account.

Notes to the accounts

h) Costs and damages

Provision is made at discounted future settlement values for estimated future costs and damages, legal costs and claims handling costs expected to arise from claims that have been notified to the Society by 31 December in respect of which Council has exercised or is expected to exercise its discretion to provide indemnity. This is a change in accounting policy which is explained in note 3. The estimated value of these costs is stated less estimated recoveries from underwriters.

No provision is made for claims that may arise from incidents incurred before 31 December but not reported to the Society at that date.

i) Tax

Provision is made in the financial statements for tax on investment and trading income received in the year and on capital gains on investments disposed of during the year. Provision is made for tax deferred because of timing differences between the treatment of items for tax and accounting purposes, except to the extent that there is reasonable probability that such deferred tax will not become payable in the future.

j) Pensions

The Society operates a defined benefit pension scheme. The assets of the scheme are invested and managed independently of the finances of the Society. Pension costs are assessed in accordance with the advice of an independent qualified actuary. Costs include the regular cost of providing benefits which it is intended should remain a substantially level percentage of current and expected future earnings of the employees covered. Variations from the regular costs are spread evenly through the income and expenditure account over the average remaining service lives of current employees.

k) Leasing

Rentals under operating leases are charged on a straight-line basis over the lease term.

Notes to the accounts

3) Prior year adjustments

The Society has changed its accounting policies relating to subscription income and accounting for costs of claims in the year to 31 December 1997.

Subscription income is now recognised as income due during the year apportioned to accounting periods on a time basis; previously the treatment was to apportion income to match expenditures within accounting periods.

Provision is now made at discounted future settlement values for estimated future costs and damages, legal costs and claims handling costs expected to arise from claims that have been accepted by the Society as at 31 December 1997. Previously such costs were not accounted for until they were incurred.

In the opinion of Council, these two changes achieve a better matching of subscription income and costs of claims.

The effect of these changes in the year is to decrease the net contribution available to meet future liabilities and charges by £14.4m (1996: £18.4m) and to decrease the net assets by £142.7m (1996: £167.4m).

A reconciliation of the effect on reserves is as follows:		£'000
Accumulated funds at 1 January 1997 (as previously stated)		192,892
Prior year adjustments: Subscription income	(36,518)	
Costs of claims	(130,914)	
		(167,432)
Accumulated funds at 1 January 1997 (as restated)		25,460

4) Discontinued operations

Details of the discontinued operations are set out in the Chief Executive's report on pages 2 to 3.

5) Advisory costs and administration expenses

	1997 £'000	1996 £'000
Charged under this classification are:		
Operating lease rentals	151	44
Auditors' remuneration – Audit fees	45	43
– Fees for other services	97	20
Emoluments of members of the Council	301	295
Profit on disposal of tangible fixed assets	396	6
Depreciation on fixed assets	499	634

Notes to the accounts

6) Income from investments	1997	1996
	£'000	£'000
Dividends: listed investments – franked	5,535	5,075
– unfranked	2,384	1,373
Bank interest	1,149	1,341
Other income	4	12
	9,072	7,801

7) Tax on income and realised gains from investments	1997	1996
	£'000	£'000
Tax on franked income	919	903
Corporation tax at 31.5% (1996: 33%)	3,968	1,429
Overseas tax payable	157	55
Overseas tax recoverable	(11)	(55)
(Over)/under provision in previous years	(14)	16
	5,019	2,348

The tax charge includes £2.8m relating to the gains realised in the year from the sale of investments. £0.5m relates to gains since 31/12/96 of £2.1m shown in the income and expenditure account and £2.3m relates to gains prior to 31/12/96 of £10.3m shown in note 18.

8) Emoluments of members of the Council	1997	1996
	£'000	£'000
Aggregate amount of emoluments paid to members of Council	270	264
Chairman	25	–
Chairman to 15 May 1996	–	8
Chairman from 15 May 1996	–	16
Highest paid director		
Chief Executive: emoluments and taxable benefits	110	108
accrued annual pension	6	4
The emoluments of other members of the Council fell in the following ranges:		
£0 – £5,000	4	5
£5,001 – £10,000	9	10
£10,001 – £15,000	3	3
£15,001 – £20,000	1	1

One member of Council is a member of the Society's defined benefit pension scheme.

9) Employees	1997	1996
	£'000	£'000
The average number of people employed by the Society during the year was 165 (1996: 158).		
Costs in respect of these employees:		
Wages and salaries	4,814	4,447
Social security costs	403	372
Pension costs	752	676
	5,969	5,495

10) Pensions

The Society operates a pension scheme providing benefits based on final pensionable earnings. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations. The most recent valuation was carried out as at 31 December 1996 using the projected unit method. It was assumed that investment returns would be 7.75% pa, that increase in earnings would average 6% pa and that pensions would increase at the rate of 4% pa. The valuation allowed for the removal of ACT tax credits as announced in the July 1997 budget.

The valuation showed that the market value of the fund's assets was £10.3 million and that the actuarial value of those assets represented approximately 103% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

Notes to the accounts

11) Tangible assets: group

	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Motor cars £'000	Total £'000
Cost					
At 1 January 1997	5,624	397	4,409	336	10,766
Additions	71	405	696	—	1,172
Disposals	(1,565)	—	(420)	(275)	(2,260)
At 31 December 1997	4,130	802	4,685	61	9,678
Depreciation					
At 1 January 1997	195	219	2,934	201	3,549
Provided in year	97	33	330	39	499
Released on disposals	(30)	—	(242)	(194)	(466)
At 31 December 1997	262	252	3,022	46	3,582
Net book values					
At 31 December 1997	3,868	550	1,663	15	6,096
At 31 December 1996	5,429	178	1,475	135	7,217

Tangible assets: company

Cost					
At 1 January 1997	5,624	397	4,295	268	10,584
Additions	71	405	693	—	1,169
Disposals	(1,565)	—	(398)	(208)	(2,171)
At 31 December 1997	4,130	802	4,590	60	9,582
Depreciation					
At 1 January 1997	195	219	2,896	172	3,482
Provided in year	97	33	319	32	481
Released on disposals	(30)	—	(229)	(159)	(418)
At 31 December 1997	262	252	2,986	45	3,545
Net book values					
At 31 December 1997	3,868	550	1,604	15	6,037
At 31 December 1996	5,429	178	1,399	96	7,102

All the leasehold properties held at 31 December 1997 are short leaseholds.

All the freehold properties held at 31 December 1997 are stated at cost.

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (1996: £ nil).

Notes to the accounts

12) Investments

	1997 Group £'000	1996 Group £'000	1997 Company £'000	1996 Company £'000
Valuation or cost at 1 January	212,110	159,356	20,052	20,052
Additions	32,742	65,857	2,984	169
Disposals	(37,919)	(24,213)	(2,984)	(169)
Movement in cash and brokers' balances	5,778	(2,514)	—	—
Surplus on revaluation of listed investments	23,820	13,624	—	—
At 31 December	236,531	212,110	20,052	20,052
Investments comprise:				
Listed on UK Stock Exchange	227,280	207,847	—	—
Listed on other overseas Stock Exchanges	1,463	2,253	—	—
Shares in group undertakings	—	—	20,052	20,052
Cash	8,038	2,010	—	—
Brokers' balances	(250)	—	—	—
	236,531	212,110	20,052	20,052
Historical cost of investments	189,301	171,079	20,052	20,052

Notes to the accounts

13) Investment in subsidiary undertakings

The Medical Protection Society has the following direct interests in subsidiary undertakings:

<i>Name</i>	<i>Parent and group interest in ordinary shares and voting rights</i>	<i>Country of incorporation or registration</i>	<i>Nature of business</i>
Dental Protection Limited	100%	England	To manage the advisory and administrative affairs of the dental division of the Society
Medical Claims Management Services Limited	100%	England	To provide, as agents for MPS, management services to the NHS Litigation Authority and to manage and advise individual health authorities in respect of medical and dental negligence claims
Medical Protection (Europe) Limited	100%	England	To manage the advisory and administrative affairs of the European division of the Society
Medical Indemnity Protection Society Limited	100%	Australia	To manage the advisory and administrative affairs of the medical division of the Society in Victoria in Australia
M P I (London) Limited	100%	England	To manage the investment portfolio
Hallam Medical Training Services Limited	70%	England	Dormant

All the above subsidiaries operate in their country of incorporation or registration.

During the year the Society disposed of its interests in the following management companies:

Medical Protection Society of New South Wales Limited

Medical Protection GmbH

Medical Protection Society Poland Sp. Z o. o.

Medical Protection Society Spol s.r.o.

Notes to the accounts

14) Debtors

	1997 Group £'000	Restated 1996 Group £'000	1997 Company £'000	Restated 1996 Company £'000
Trade debtors	36	243	9	243
Amounts owed by subsidiary undertakings	–	–	142,950	150,246
Other debtors	1,077	793	786	625
Prepayments	909	833	909	832
	2,022	1,869	144,654	151,946

15) Creditors: amounts falling due within one year

	1997 Group £'000	Restated 1996 Group £'000	1997 Company £'000	Restated 1996 Company £'000
Corporation tax	3,413	972	525	256
Other taxes and social security	10	183	–	175
Deferred income	8,971	19,345	8,971	19,345
Amounts due to subsidiary undertakings	–	–	–	72
Other creditors and accruals	36,736	11,539	36,449	11,320
	49,130	32,039	45,945	31,168

16) Creditors: amounts falling due after more than one year

	1997 Group £'000	1996 Group £'000	1997 Company £'000	1996 Company £'000
Other creditors and accruals	5,365	–	5,365	–
	5,365	–	5,365	–

17) Provision for liabilities and charges: group and company

	Known claims £'000	Claims handling £'000	Total £'000
At 1 January 1997	126,000	4,914	130,914
Movements in the year			
Charged to the income and expenditure account	51,987	92	52,079
Paid	(45,610)	–	(45,610)
Released on discontinued operations	(28,587)	(958)	(29,545)
At 31 December 1997	103,790	4,048	107,838

Notes to the accounts

18) Movement on reserves: group

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
At 1 January 1997 (as previously stated)	41,975	192,892	234,867
Prior year adjustment (as explained in note 3)	—	(167,432)	(167,432)
At 1 January 1997 (as restated)	41,975	25,460	67,435
Surplus on revaluation of listed investments	23,820	—	23,820
Released on disposal of fixed assets	(10,305)	10,305	—
Net contribution for the year after taxation	—	20,628	20,628
At 31 December 1997	55,490	56,393	111,883

Movement on reserves: company

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
At 1 January 1997 (as previously stated)	931	192,586	193,517
Prior year adjustment (as explained in note 3)	—	(167,432)	(167,432)
At 1 January 1997 (as restated)	931	25,154	26,085
Released on disposal of fixed assets	(931)	931	—
Net contribution for the year after taxation	—	14,996	14,996
At 31 December 1997	—	41,081	41,081

19) Reconciliation of movements in funds available to meet future liabilities

	1997 £'000	1996 £'000
Net contribution for the financial year	20,628	20,767
Other recognised gains relating to the year	23,820	13,624
Reduction on revaluation of fixed assets	—	(1,700)
Total recognised gains	44,448	32,691
Opening funds available to meet future liabilities (as previously stated)	234,867	183,767
Prior year adjustments (as explained in note 3)	(167,432)	(149,023)
	67,435	34,744
Closing funds available to meet future liabilities	111,883	67,435

Notes to the accounts

20) Reconciliation of excess of income over expenditure to operating cash flows

	1997 £'000	Restated 1996 £'000
Excess of income over expenditure	31,054	14,965
Depreciation charges	499	634
Profit on disposal of tangible fixed assets	(396)	(6)
(Increase)/decrease in claims reserve – continuing operations	6,486	7,663
– discontinued operations	(29,562)	–
(Increase)/decrease in debtors	(137)	666
Increase in creditors	20,121	3,524
Net cash inflow from operating activities	28,065	27,446

21) Returns on investment and servicing of finance

	1997 £'000	1996 £'000
Interest received	1,279	1,341
Dividends received	7,373	6,437
Other income received	6	12
Net cash inflow from returns on investments and servicing of finance	8,658	7,790

22) Capital expenditure and financial investment

	1997 £'000	1996 £'000
Purchase of tangible fixed assets	(1,172)	(272)
Purchase of investments	(32,742)	(65,848)
Sale of tangible fixed assets	2,181	78
Sale of investments	40,062	24,563
Net cash inflow/(outflow) from capital expenditure and financial investment	8,329	(41,479)

23) Commitments

	1997 Group £'000	1996 Group £'000	1997 Company £'000	1996 Company £'000
Operating lease commitments				
Land and buildings, leases expiring:				
Within one year	180	–	180	–
Two to five years	–	180	–	180
Greater than five years	183	183	183	183
	363	363	363	363
Motor vehicles, leases expiring:				
Within one year	3	4	2	4
Two to five years	26	13	25	13
	29	17	27	17

The Society has guaranteed that its subsidiaries have adequate resources to meet their liabilities as they fall due.

24) Obligations of members

The Society has the right to call each year for additional funds from its members up to an amount equal to the annual subscription.

25) Guarantee

The Society is limited by guarantee of up to £1 per member.

Professional advisers

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MEDICAL PROTECTION SOCIETY

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